



CAA

26 April 2018

CAA Industries Ltd. Shareholders

Dear All,

As you know, I was appointed as CEO in late 2016. Relevant to that date, CAA was on the brink of insolvency and unable to pay its debts.

I updated you on the state of the company in a meeting held on 31 March 2017.

Following your instructions back then, I initiated a streamlining process and massive cutbacks in expenses in order to take the company on a path of recovery.

In addition, the company launched new products (such as the Micro Roni gun conversion kit, of which approximately 40K units were sold), established a plastic-injection division and underwent a streamlining process that restored current profitability (excluding debts incurred prior to my appointment as CEO).

In view of the stated measures, the company ended 2017 with a positive EBITDA profit.

Due to the stated efforts and investments made by some of the company's shareholders (Moshe and Eldad Oz), it seemed that the company's financial situation was stabilizing and that it was pulling out of the predicament it was under with my arrival.

Unfortunately, we recently discovered that our largest injection client, Naan Dan Jain Irrigation, with its factory based in Kibbutz Naan, is facing severe cash flow issues and, as such, has halted all of its orders. This led to an immediate budgetary "deficit" of \$200K per month in our cash flow.

Considering/by paying attention to that figure and the company's past debts, we are currently facing a new situation that we experienced before, in which the company is unable to pay its current and immediate debts to state institutions (The National Insurance Institute, The Tax Authority, and so forth), its employees (salaries and pension provisions as required by law) and its suppliers.

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In the circumstances at hand, I contacted CAA's legal advisor, Adv. Eyal Abramov, requesting his legal opinion on the situation that the company is about to face.

Adv. Abramov clarified that as long the company keeps operating without paying its debts to employees and state institutions, the company's shareholders and officers face the risk of a criminal indictment, be subject to administrative fines and personal lawsuits, including measures taken against them by position-holders who will be appointed should the company become insolvent.

In that situation, I wish to urgently convene a shareholders' meeting in order to discuss the new situation, the possible solutions and receive your instructions on future measures.

In view of the above, I would be glad to present the full financial data at the shareholders' meeting.

Finally, I should note that several multimillion-dollar weapon and ammunition contracts are about to be finalized with defense ministries in foreign countries, including Nigeria, Morocco, Turkmenistan and others. However, in order to implement these deals successfully, the company requires an immediate line of credit, which it currently does not have.

Sincerely,

Tal Hermoni, CEO

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